

Outlook for FY22–23 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of FY21 results

At Russell/Nomura Large Cap companies in FY21, sales rose 14.1% y-y, operating profits rose 58.3%, recurring profits rose 34.1%, and net profits rose 38.9%. These profit growth rates were held down by SoftBank Group [9984], whose investment business recorded substantial profits in FY20 followed by substantial losses in FY21. With SoftBank group left out, recurring profits at Russell/Nomura Large Cap companies increased by 58.7% y-y in FY21, and net profits increased by 78.4%. For FY22, our bottom-up forecasts look for a 10.3% increase in sales, a 12.3% increase in operating profits, an 11.1% increase in recurring profits, and a 9.7% increase in net profits. With SoftBank Group left out, the forecasts for growth in recurring profits and net profits fall to 6.9% and 3.1%, respectively. This forecast pace of recurring profit growth is somewhat higher than the pre-pandemic five-year CAGR of 4.7% (for FY14–FY18, over FY13).

Overview of the corporate earnings outlook for FY22

The recurring profit forecast in our updated bottom-up forecasts for FY22 is 1.4% lower than the number in the compiled forecasts we presented on 2 March. This is the first downward revision to FY22 forecasts since we first began compiling them. The downward revisions in the autos sector are especially large. Some company-specific factors feature heavily here, including the unusual move by Toyota Motor [7203] to shoulder some of the burden of high raw material costs for its suppliers. But even when taking such special circumstances into account, it is significant that the revision index, which tracks changes in earnings forecasts based simply on the number of companies for which forecasts were revised either up or down, came to -8.7% in this update to our bottom-up forecasts, the first negative reading (indicating more downward revisions than upward revisions) since September 2020.

Although this update to our bottom-up forecasts marks a stop to what had been a long run of net upward revisions, analysts are still looking for profits at high levels in absolute terms. Narrowing the list of Russell/Nomura Large Cap Index companies to those for which comparable recurring profit results for the past ten years are available (FY12–FY21), we see that recurring profits in FY21 were 15.7% above the previous record set in FY18, and furthermore find that recurring profits in FY22 are forecast to be 28.6% above the FY18 level. These elevated profit levels rest on improvement in margins. The previous peak in the aggregate recurring profit margin at Russell/Nomura Large Cap Index companies (ex financials) came in FY17, at 8.3%. This was then exceeded in FY21, when the margin came to 9.0%, and a further rise to 9.4% is forecast for FY22. Cost-cutting steps that companies took in response to slumping demand during the pandemic are one reason for the improvement in margins. Pandemic-driven supply chain constraints are another cause: shortages in supply chains have counterintuitively led to improved profit margins by handing companies more bargaining power in setting prices.

Fig. 1: Overview of consolidated earnings forecasts for the Russell/Nomura Large Cap Index

Items	Category	No. of cos	New					Old	
			FY19	FY20	FY21	FY22E	FY23E	FY21E	FY22E
			Actual	Actual	Actual	E	E	E	E
Sales (% y-y)	Russell/Nomura Large Cap (ex financials)	265	-2.5	-7.5	14.1	10.3	2.2	13.5	6.6
	Manufacturing	145	-2.7	-8.0	15.2	12.0	3.9	15.0	9.4
	Basic materials	29	-2.0	-12.1	28.8	19.6	0.5	28.9	6.9
	Processing	74	-4.5	-7.7	13.3	11.0	5.3	13.1	11.5
	Nonmanufacturing (ex financials)	120	-2.3	-6.8	12.8	8.2	0.1	11.7	3.0
	Russell/Nomura Small Cap (ex financials)	1,095	0.3	-6.1	7.3	6.9	4.0	6.9	5.1
Operating profits (% y-y)	Russell/Nomura Large Cap (ex financials)	265	-23.7	-18.9	58.3	12.3	9.3	58.0	15.0
	Manufacturing	145	-23.2	-3.4	58.2	10.2	9.9	58.5	14.2
	Basic materials	29	-48.7	13.7	148.5	-5.2	5.2	136.0	-6.5
	Processing	74	-20.1	-8.6	52.9	16.1	11.3	54.9	21.3
	Nonmanufacturing (ex financials)	120	-24.3	-36.2	58.5	15.7	8.3	57.1	16.3
	Russell/Nomura Small Cap (ex financials)	1,095	-6.0	-12.5	37.8	9.9	11.6	38.4	12.7
Recurring profits (% y-y)	Russell/Nomura Large Cap	287	-20.5	4.5	34.1	11.1	7.3	36.0	10.9
	Russell/Nomura Large Cap (ex financials)	265	-22.3	5.6	34.5	12.9	7.3	37.3	12.2
	Manufacturing	145	-27.2	7.6	56.9	7.0	9.5	52.9	13.2
	Basic materials	29	-52.0	13.7	164.2	-6.2	4.9	147.4	-6.1
	Processing	74	-24.5	8.7	47.8	10.4	10.8	43.7	18.9
	Nonmanufacturing	142	-14.3	2.0	14.7	15.7	4.9	21.5	8.4
	Nonmanufacturing (ex financials)	120	-16.0	3.3	8.8	22.2	4.2	19.1	10.7
	Russell/Nomura Small Cap	1,180	-7.3	-5.9	45.0	3.8	10.5	39.4	9.4
	Russell/Nomura Small Cap (ex financials)	1,095	-9.5	-7.0	50.1	3.3	11.0	43.7	9.4
After-tax profits (% y-y)	Russell/Nomura Large Cap	287	-31.6	16.3	38.9	9.7	6.7	39.8	10.5
	Russell/Nomura Large Cap (ex financials)	265	-35.6	18.3	39.5	12.3	6.6	42.1	11.9
	Manufacturing	145	-40.3	16.4	66.8	2.5	9.5	59.7	10.9
	Basic materials	29	-82.6	73.7	308.5	-14.7	3.8	270.1	-12.2
	Processing	74	-37.9	18.9	51.4	6.3	11.1	45.0	16.8
	Nonmanufacturing	142	-22.2	16.2	15.1	18.3	3.8	22.6	9.9
	Nonmanufacturing (ex financials)	120	-28.8	20.7	7.6	29.2	2.5	21.2	13.4
	Russell/Nomura Small Cap	1,180	-12.0	2.1	72.2	6.8	7.1	64.0	9.5
	Russell/Nomura Small Cap (ex financials)	1,095	-13.9	1.2	84.9	6.0	7.8	75.3	9.6

Note: Latest estimates as of 1 June 2022, previous estimates as of 2 March 2022.

Source: Nomura

Fig. 2: Major assumptions

As of 18 Apr 2022							As of 20 Jan 2022					
FY		Industrial production	Policy rate	WTI	Exchange rate		Industrial production	Policy rate	WTI	Exchange rate		
		2015se year	(FY-end)		(avg)	2015 base year				(FY-end)		(avg)
		%y-y	%	\$/bbl	USD/JPY	EUR/JPY	%y-y	%	\$/bbl	USD/JPY	EUR/JPY	
FY	FY21	5.8	-0.10	77.0	112.34	130.51	-9.5	-0.10	42.3	106.00	123.69	
	FY22	4.1	-0.10	100.0	120.00	130.00	6.0	-0.10	75.1	111.53	130.15	
	FY23	2.5	-0.10	90.0	120.00	130.00	5.7	-0.10	79.9	113.00	129.00	
Half-yearly	FY21 H1	12.4	-0.10	68.3	109.75	130.80	-16.6	-0.10	34.4	106.80	121.26	
	FY21 H2	0.1	-0.10	85.7	114.93	130.23	-2.3	-0.10	50.2	105.21	126.12	
	FY22 H1	2.7	-0.10	103.3	120.00	130.00	12.4	-0.10	68.3	109.75	130.80	
	FY22 H2	5.5	-0.10	96.7	120.00	130.00	0.5	-0.10	81.8	113.32	129.49	
	FY23 H1	3.4	-0.10	92.3	120.00	130.00	4.2	-0.10	82.5	113.00	129.00	
	FY23 H2	1.7	-0.10	87.7	120.00	130.00	7.3	-0.10	77.3	113.00	129.00	

Note: WTI is the term-average WTI crude oil futures price. The above assumptions are not Nomura forecasts but the assumptions on which Nomura analysts base their earnings forecasts.

Source: Nomura

Contributions to recurring profit growth by sector

Overview of FY21 results

In FY21, recurring profits rose in 16 of 19 sectors and fell in the other 3 sectors.

The largest contributions to recurring profit growth came from such sectors as trading companies, transportation, chemicals, and automobiles.

Trading companies' commodities-focused businesses enjoyed sustained rises in market prices for crude oil, iron ore, and coking coal. In non-resource operations as well, the pandemic brought about supply shortages in a wide variety of business areas, and trading companies—occupying their intermediate position in distribution chains—found it relatively easy to reap higher trading margins. Transportation sector companies benefitted from a recovery in passenger traffic, and the marine transportation subsector had a strong year. Container freight volumes have increased, particularly to North America, and container shipping rates have stayed high. A broad range of companies in the chemical sector saw their profits rise as economic activity resumed. The petroleum subsector saw especially strong profit growth thanks to high crude oil prices, and PVC businesses performed well, too. In the automobile sector, profits were lifted by price hikes (including in the form of reduced discounting), improvements in vehicle model mixes, and the yen's weakness.

The three sectors in which recurring profits declined in FY21 were the telecommunications sector, the utilities sector, and the construction sector.

The decline in profits in the telecommunications sector was largely a matter of the deterioration in the performance of SoftBank Group's investments. With SoftBank Group factored out, profits in the sector rose. Companies in the utilities sector were saddled with deterioration in gains/losses under the fuel cost adjustment scheme, and the cost of electric power sourced externally increased as JEPX (Japan Electric Power Exchange) market prices rose. In the construction sector, there was fierce competition to secure big-ticket projects, and gross margins on building construction were low, with profit margins at the time of order receipt having drifted downward since FY18.

Overview of the corporate earnings outlook for FY22

For FY22, our analysts expect recurring profits to increase in 14 of 19 sectors and decrease in 5.

The telecommunications, transportation, electrical machinery & precision equipment, and automobile sectors are forecast to make especially large contributions to aggregate growth in recurring profits.

For the telecommunications sector, the expectation for marked profit growth in FY22 has mostly to do with the drop-out of the investment losses that SoftBank Group recorded in FY21. In the transportation sector, our analysts look for profit growth led by a recovery in passenger traffic, including with the resumption of more international passenger flights in FY22 H2 as the pandemic winds down. Turning to the electrical machinery & precision equipment sector, the lockdowns in China and a drop in demand for consumer equipment will probably take a toll, but sales of semiconductors are expected to continue growing, particularly for automotive electronic applications. The semiconductor production equipment market as well is expected to see strong growth again. For the automobile sector, the lockdowns in China and shortages of semiconductors have been holding down vehicle output in Apr–Jun, but Chinese production of finished automobiles and automobile components alike is already starting to recover from its low point, and with production on course to normalize this summer, consolidated vehicle sales volumes are forecast to increase by a sharp 13% y-y, to 20.99mn vehicles. Although high raw material costs are poised to weigh on earnings, our analysts expect the profit boost from increased output to offset the impact.

Sectors in which profits are expected to decline include the steel & nonferrous metals sector, the services sector, and the media sector.

The steel & nonferrous metals sector is expected to be hit by a combination of deterioration in inventory valuation gains/losses, a slump in output due to the disruptions in automobile supply chains, and narrower steel product export spreads. The services sector is expected to suffer not only from a decline in the volume of mail handled, but also from a slowdown in ocean freight forwarding as shipping rates settle down. Profits in the media sector in FY22 are expected to fall on the drop-out of gains on the sale of fixed assets recorded in FY21.

Fig. 3: Contributions to recurring profit growth by sector for the Russell/Nomura Large Cap Index

FY21				FY22E			
Increase in profits (%)				Increase in profits (%)			
16 sectors	Growth	Contribution	Contribution (ex financials)	14 sectors	Growth	Contribution	Contribution (ex financials)
Trading companies	208.6	25.6	29.4	Telecommunications	103.9	36.6	36.4
Transportation	SP	22.2	25.5	Transportation	59.4	21.0	20.9
Chemicals	119.1	20.7	23.7	Electrical machinery, precision equipment	13.9	17.4	17.3
Automobiles	56.5	20.0	23.0	Automobiles	8.3	10.6	10.5
Electrical machinery, precision equipment	36.0	14.4	16.6	Pharmaceuticals, healthcare	23.5	7.6	7.6
Financials	31.9	12.9	-	Trading companies	5.2	4.6	4.5
Steel, nonferrous metals	555.9	11.1	12.8	Retailing	12.7	3.3	3.3
Machinery	61.7	7.3	8.4	Machinery	6.9	3.1	3.1
Services	36.1	4.0	4.6	Chemicals	2.7	2.3	2.3
Housing, real estate	24.1	3.6	4.1	Utilities	44.0	2.1	2.1
Media	SP	2.9	3.3	Housing, real estate	5.0	2.1	2.1
Retailing	20.0	2.0	2.3	Food	7.5	1.8	1.8
Household goods	30.0	1.3	1.5	Construction	14.0	0.9	0.9
Software	14.4	1.3	1.5	Household goods	1.7	0.2	0.2
Food	10.0	1.0	1.2				
Pharmaceuticals, healthcare	6.5	0.9	1.0				
Decrease in profits (%)				Decrease in profits (%)			
3 sectors	Growth	Contribution	Contribution (ex financials)	5 sectors	Growth	Contribution	Contribution (ex financials)
Construction	-22.8	-1.1	-1.2	Software	-1.3	-0.3	-0.3
Utilities	-61.2	-4.3	-4.9	Financials	-0.3	-0.4	-
Telecommunications	-74.9	-45.8	-52.6	Media	-27.8	-1.5	-1.5
				Services	-5.6	-2.0	-2.0
				Steel, nonferrous metals	-32.4	-9.3	-9.3
FY23E							
Increase in profits (%)				Increase in profits (%)			
17 sectors	Growth	Contribution	Contribution (ex financials)	2 sectors	Growth	Contribution	Contribution (ex financials)
Automobiles	16.6	31.5	35.6	Software	-3.9	-1.2	-1.3
Utilities	156.8	14.7	16.6	Trading companies	-13.8	-17.5	-19.8
Electrical machinery, precision equipment	6.3	12.3	13.9				
Financials	6.9	11.6	-				
Telecommunications	11.3	11.1	12.6				
Chemicals	4.8	5.7	6.5				
Machinery	7.5	5.0	5.7				
Pharmaceuticals, healthcare	8.6	4.7	5.3				
Household goods	25.6	4.6	5.2				
Services	9.8	4.5	5.1				
Housing, real estate	5.6	3.4	3.8				
Retailing	7.6	3.0	3.4				
Food	5.9	2.1	2.4				
Transportation	2.6	2.0	2.2				
Steel, nonferrous metals	5.2	1.4	1.6				
Media	11.3	0.6	0.7				
Construction	5.4	0.6	0.6				
Decrease in profits (%)							
2 sectors	Growth	Contribution	Contribution (ex financials)				
Software	-3.9	-1.2	-1.3				
Trading companies	-13.8	-17.5	-19.8				

Note: SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of FY21 results

FY21 recurring profits were higher than forecast in 16 of 19 sectors and lower than forecast in 3 sectors.

The sectors in which profits went the furthest beyond analysts' forecasts were the transportation, chemical, financial, and steel & nonferrous metals sectors.

In the transportation sector, containership rates ended up being stronger than forecast. In the chemicals sector, the higher price of crude oil pushed up profits by way of time-lag gains that showed up in both domestic margins and export margins for petroleum products. Turning to the financial sector, companies in the insurance subsector did better than Nomura had forecast thanks to a decline in automobile accidents (attributable to the pandemic) and an increase in investment gains. And finally, in the steel & nonferrous metals sector, progress seems to have been made in getting customers to accept higher prices, so spreads improved by more than Nomura had forecast.

Profits fell short of forecasts in the telecommunications sector, the pharmaceuticals & healthcare sector, and the retailing sector.

For the telecommunications sector, the investment losses at SoftBank Group were the main cause of the shortfall versus forecasts. In the pharmaceuticals & healthcare sector, R&D spending increased by more than expected. And in the retailing sector, earnings were hit both by the Omicron wave of the pandemic starting in January 2022 and by higher costs for utilities.

Overview of the corporate earnings outlook for FY22

Our analysts have raised their FY22 recurring profit forecasts for 8 of 19 sectors and lowered them for 11.

The largest upward revisions made were to forecasts for companies in the trading companies, chemicals, electrical machinery & precision equipment, and transportation sectors.

For trading companies, the upward revisions to forecasts center on resource businesses, reflecting continued high market prices for coking coal, crude oil, and other commodities. In the chemicals sector, a hike to the crude oil market price assumption meant upward revisions to forecasts for the petroleum subsector. Also, with demand for PVC still strong in North America, PVC margins and caustic soda prices have held up well, and forecasts were revised upward to account for this. For the electrical machinery & precision equipment sector, the upward revisions were in large part made to reflect one-time gains, including gains on the sale of subsidiaries and gains on the sale of real estate. Forecasts for the transportation sector have been revised upward to account for the fact that containership business profits in FY21 were higher than Nomura had anticipated.

The largest downward revisions made were to forecasts for companies in the automobile sector, the utilities sector, the pharmaceuticals & healthcare sector, and the telecoms sector, among others.

Forecasts for the automobile sector were lowered to account for semiconductor shortages and lockdowns in China (which have compounded to limit output) and for an increase in raw material costs. For the utilities sector, lowered forecasts reflect anticipated deterioration in gains/losses under the fuel cost adjustment scheme, along with higher costs for electric power sourced externally (due to higher JEPX prices) and companies' inability to pass along higher costs once prices reach the cap stipulated in the fuel cost adjustment scheme. In the pharmaceuticals & healthcare sector, meanwhile, analysts now expect higher SG&A expenses and R&D spending than they previously had. Finally, forecasts for the telecoms sector were lowered to reflect higher prices for electric power.

Fig. 4: Revisions to recurring profit estimates (versus old estimates) for the Russell/Nomura Large Cap Index

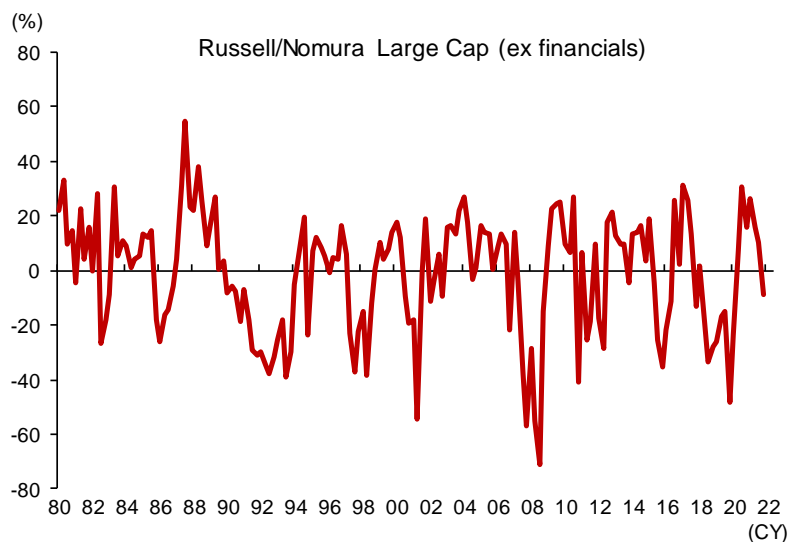
FY21					FY22E				
[Upward revisions]					[Upward revisions]				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
16 sectors					8 sectors				
Transportation	1,446	1,131	315.1	27.9	Trading companies	5,472	4,560	912.0	20.0
Chemicals	5,218	4,944	274.1	5.5	Chemicals	5,111	4,718	392.9	8.3
Financials	7,328	7,130	197.3	2.8	Electrical machinery, precision equipment	8,421	8,194	226.6	2.8
Steel, nonferrous metals	1,802	1,628	173.8	10.7	Transportation	3,325	3,227	98.7	3.1
Utilities	375	221	153.7	69.5	Services	1,972	1,924	48.3	2.5
Trading companies	5,203	5,101	101.9	2.0	Financials	7,263	7,229	33.6	0.5
Services	2,086	1,994	92.2	4.6	Software	1,274	1,262	11.6	0.9
Automobiles	7,608	7,520	87.3	1.2	Steel, nonferrous metals	1,150	1,145	5.0	0.4
Housing, real estate	2,509	2,442	67.1	2.7					
Electrical machinery, precision equipment	7,479	7,413	65.5	0.9	[Downward revisions]				
Machinery	2,637	2,579	57.4	2.2	11 sectors				
Software	1,381	1,341	40.0	3.0		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Household goods	778	750	28.3	3.8	Machinery	2,865	2,866	-1.2	-0.0
Food	1,533	1,519	14.7	1.0	Housing, real estate	2,578	2,587	-9.9	-0.4
Construction	501	493	8.3	1.7	Media	236	259	-22.5	-8.7
Media	327	321	6.5	2.0	Construction	456	482	-26.5	-5.5
[Downward revisions]					[Downward revisions]				
3 sectors					11 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Retailing	1,651	1,681	-29.6	-1.8	Household goods	771	818	-46.8	-5.7
Pharmaceuticals, healthcare	1,983	2,245	-261.9	-11.7	Retailing	1,706	1,763	-56.6	-3.2
Telecommunications	2,112	4,543	-2,430.9	-53.5	Food	1,517	1,595	-78.2	-4.9
					Telecommunications	4,240	4,442	-201.7	-4.5
					Pharmaceuticals, healthcare	2,352	2,605	-253.7	-9.7
					Utilities	403	834	-431.1	-51.7
					Automobiles	8,147	9,601	-1,453.3	-15.1

Note: Latest estimates as of 1 June 2022, previous estimates as of 2 March 2022.

Source: Nomura

Fig. 5: Revision index for the Russell/Nomura Large Cap Index

	(yy/m)	20/9	20/12	21/3	21/6	21/9	21/12	22/3	22/6
Russell/Nomura Large Cap		-25.5	7.6	29.3	16.2	25.7	17.1	11.5	-8.7
Russell/Nomura Large Cap (ex financials)		-23.9	7.2	31.0	16.1	26.1	16.1	10.2	-9.1
Manufacturing		-17.7	7.4	38.7	18.5	32.4	20.8	6.2	-13.1
Basic materials		-29.7	18.9	52.8	61.1	36.1	47.2	48.3	-17.2
Processing		-14.3	20.2	64.6	27.8	46.8	24.1	2.7	-10.8
Nonmanufacturing (ex financials)		-32.1	6.9	21.2	13.1	18.2	10.2	15.0	-4.2



Note: (1) Calculated by Nomura based on revisions to recurring profit forecasts. Excludes consolidated subsidiaries. (2) Revision index = (number of upward revisions - number of downward revisions) ÷ number of constituent companies.

Source: Nomura

Russell/Nomura Large Cap Index: earnings indicators

Fig. 6: Percentage change in sales by sector

(%)

		No. of cos	FY18	FY19	FY20	FY21 Old	FY21 New	FY22E Old	FY22E New	FY23E New
						E	Actual	E	E	E
Industrial groups	Russell/Nomura Large Cap (ex financials)	265	6.5	-2.5	-7.5	13.5	14.1	6.6	10.3	2.2
	Manufacturing	145	3.0	-2.7	-8.0	15.0	15.2	9.4	12.0	3.9
	Basic materials	29	7.0	-2.0	-12.1	28.9	28.8	6.9	19.6	0.5
	Processing	74	1.7	-4.5	-7.7	13.1	13.3	11.5	11.0	5.3
	Nonmanufacturing (ex financials)	120	11.5	-2.3	-6.8	11.7	12.8	3.0	8.2	0.1
Broad sectors	Materials	29	7.0	-2.0	-12.1	28.9	28.8	6.9	19.6	0.5
	Machinery, autos	38	2.2	-4.4	-10.4	13.7	13.9	16.2	13.9	7.0
	Electronics	36	0.8	-4.8	-3.0	12.2	12.5	4.3	6.5	2.5
	Consumer, distribution	84	15.5	-0.6	-4.4	14.5	15.6	1.4	6.7	-2.0
	Information	27	3.7	-7.4	-0.6	6.0	6.0	2.8	4.3	2.5
	Utilities, infrastructure	51	3.8	0.2	-12.2	4.8	6.0	7.0	11.5	4.8
Sectors	Chemicals	25	8.0	-1.2	-12.4	28.6	27.8	6.1	20.7	1.1
	Steel, nonferrous metals	4	4.7	-3.9	-11.3	29.6	31.5	9.4	16.4	-1.2
	Machinery	23	3.0	-3.6	-5.5	16.0	17.8	6.7	7.7	3.5
	Autos	15	2.0	-4.6	-11.8	13.1	12.8	19.2	15.8	8.1
	Electrical machinery, precision equipment	36	0.8	-4.8	-3.0	12.2	12.5	4.3	6.5	2.5
	Pharmaceuticals, healthcare	16	3.5	9.7	-2.1	6.9	7.4	3.8	4.9	2.0
	Food products	13	2.5	0.7	-3.9	1.9	2.0	3.2	4.6	3.3
	Household goods	13	3.5	-0.8	-7.4	8.4	9.2	4.6	5.4	5.9
	Trading companies	8	45.0	-5.0	-5.8	27.6	30.3	-2.5	8.1	-8.8
	Retailing	15	3.1	2.5	-3.4	14.1	13.7	7.9	8.9	3.5
	Services	19	1.9	-2.5	-4.0	2.4	3.1	0.5	3.1	2.6
	Software	13	9.5	7.5	9.2	3.7	3.8	2.1	4.1	-1.8
	Media	3	6.4	0.8	-12.9	20.9	19.7	7.7	7.4	6.0
	Telecommunications	11	2.7	-10.7	-0.6	5.4	5.4	2.5	4.0	3.1
	Construction, engineering	5	8.0	5.1	-9.8	6.7	5.8	4.6	9.8	3.3
	Housing, real estate	18	5.4	2.3	-4.3	7.6	8.4	4.6	6.0	4.3
	Transportation	20	-1.1	-2.2	-28.2	15.8	15.5	11.0	12.8	6.2
Utilities	8	6.6	-0.9	-3.1	-7.7	-4.1	6.9	17.3	4.6	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 June 2022; previous estimates as of 2 March 2022.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

		No. of cos	FY18	FY19	FY20	FY21 Old	FY21 New	FY22E Old	FY22E New	FY23E New
						E	Actual	E	E	E
Industrial groups	Russell/Nomura Large Cap	287	1.1	-20.5	4.5	36.0	34.1	10.9	11.1	7.3
	Russell/Nomura Large Cap (ex financials)	265	3.1	-22.3	5.6	37.3	34.5	12.2	12.9	7.3
	Manufacturing	145	-1.5	-27.2	7.6	52.9	56.9	13.2	7.0	9.5
	Basic materials	29	2.1	-52.0	13.7	147.4	164.2	-6.1	-6.2	4.9
	Processing	74	-2.6	-24.5	8.7	43.7	47.8	18.9	10.4	10.8
	Nonmanufacturing	142	3.7	-14.3	2.0	21.5	14.7	8.4	15.7	4.9
	Nonmanufacturing (ex financials)	120	9.7	-16.0	3.3	19.1	8.8	10.7	22.2	4.2
Broad sectors	Materials	29	2.1	-52.0	13.7	147.4	164.2	-6.1	-6.2	4.9
	Machinery, autos	38	-8.9	-23.9	-7.0	55.5	57.8	24.2	7.9	14.3
	Electronics	36	9.3	-25.3	34.8	30.2	36.0	11.7	13.9	6.3
	Consumer, distribution	84	2.8	-9.5	-12.0	57.2	56.6	3.0	7.1	0.4
	Information	27	33.1	-35.2	157.0	-35.0	-60.0	-2.0	55.5	7.9
	Utilities, infrastructure	51	-2.5	-2.6	-68.8	110.7	137.7	56.9	29.5	13.1
	Financials	22	-10.5	-9.1	-1.4	28.4	31.9	2.3	-0.3	6.9
Sectors	Chemicals	25	4.5	-34.2	-11.6	107.6	119.1	0.2	2.7	4.8
	Steel, nonferrous metals	4	-7.3	SL	SP	492.7	555.9	-25.6	-32.4	5.2
	Machinery	23	9.6	-30.0	-5.0	58.2	61.7	10.1	6.9	7.5
	Autos	15	-14.6	-21.5	-7.7	54.6	56.5	29.1	8.3	16.6
	Electrical machinery, precision equipment	36	9.3	-25.3	34.8	30.2	36.0	11.7	13.9	6.3
	Pharmaceuticals, healthcare	16	-3.5	8.0	11.8	20.5	6.5	23.5	23.5	8.6
	Food products	13	-3.7	-15.6	0.6	8.9	10.0	14.4	7.5	5.9
	Household goods	13	6.9	-7.5	-23.6	25.2	30.0	11.6	1.7	25.6
	Trading companies	8	10.4	-27.9	-26.8	202.5	208.6	-10.6	5.2	-13.8
	Retailing	15	3.3	4.1	-17.7	22.2	20.0	14.0	12.7	7.6
	Services	19	0.0	1.7	-14.3	30.0	36.1	-3.7	-5.6	9.8
	Software	13	16.7	20.1	39.6	11.0	14.4	0.5	-1.3	-3.9
	Media	3	4.1	-57.5	SL	SP	SP	-19.3	-27.8	11.3
	Telecommunications	11	38.5	-41.4	207.6	-45.9	-74.9	-1.5	103.9	11.3
	Construction, engineering	5	-1.1	0.6	-13.4	-24.1	-22.8	23.3	14.0	5.4
	Housing, real estate	18	-2.7	5.4	-10.8	20.7	24.1	8.3	5.0	5.6
	Transportation	20	2.2	-17.4	SL	SP	SP	98.6	59.4	2.6
	Utilities	8	-12.8	17.7	-15.3	-77.1	-61.2	495.4	44.0	156.8
	Financials	22	-10.5	-9.1	-1.4	28.4	31.9	2.3	-0.3	6.9

Note: (1) SP = switch to profits, SL = switch to losses. LS = losses shrinking. (2) Figures exclude listed consolidated subsidiaries. (3) Latest estimates as of 1 June 2022; previous estimates as of 2 March 2022.

Source: Nomura

Fig. 8: Recurring profits by sector

		No. of cos	FY18	FY19	FY20	FY21 Old	FY21 New	FY22E Old	FY22E New	FY23E New	(¥bn)
											E
Industrial groups	Russell/Nomura Large Cap	287	48,162	38,542	40,173	54,997	53,958	60,112	59,259	63,563	
	Russell/Nomura Large Cap (ex financials)	265	41,796	32,757	34,590	47,867	46,630	52,883	51,996	55,802	
	Manufacturing	145	23,510	17,180	18,613	28,599	29,038	31,543	30,334	33,228	
	Basic materials	29	4,963	2,453	2,721	6,572	7,020	5,863	6,261	6,568	
	Processing	74	14,552	10,942	12,114	17,513	17,723	20,661	19,433	21,531	
	Nonmanufacturing	142	24,652	21,362	21,560	26,399	24,920	28,569	28,925	30,334	
	Nonmanufacturing (ex financials)	120	18,286	15,578	15,977	19,268	17,592	21,340	21,663	22,574	
Broad sectors	Materials	29	4,963	2,453	2,721	6,572	7,020	5,863	6,261	6,568	
	Machinery, autos	38	8,911	6,745	6,492	10,099	10,244	12,467	11,012	12,582	
	Electronics	36	5,641	4,197	5,622	7,413	7,479	8,194	8,421	8,949	
	Consumer, distribution	84	10,312	9,397	8,260	13,291	13,236	13,265	13,790	13,849	
	Information	27	5,753	3,728	9,589	6,205	3,820	5,963	5,750	6,205	
	Utilities, infrastructure	51	6,216	6,236	1,906	4,287	4,831	7,130	6,762	7,649	
	Financials	22	6,366	5,785	5,583	7,130	7,328	7,229	7,263	7,760	
Sectors	Chemicals	25	4,036	2,758	2,425	4,944	5,218	4,718	5,111	5,358	
	Steel, nonferrous metals	4	927	-305	296	1,628	1,802	1,145	1,150	1,210	
	Machinery	23	2,539	1,781	1,670	2,579	2,637	2,866	2,865	3,081	
	Autos	15	6,372	4,964	4,822	7,520	7,608	9,601	8,147	9,501	
	Electrical machinery, precision equipment	36	5,641	4,197	5,622	7,413	7,479	8,194	8,421	8,949	
	Pharmaceuticals, healthcare	16	1,540	1,632	1,810	2,245	1,983	2,605	2,352	2,554	
	Food products	13	1,625	1,387	1,373	1,519	1,533	1,595	1,517	1,607	
	Household goods	13	830	765	596	750	778	818	771	969	
	Trading companies	8	3,148	2,271	1,663	5,101	5,203	4,560	5,472	4,718	
	Retailing	15	1,497	1,612	1,310	1,681	1,651	1,763	1,706	1,835	
	Services	19	1,672	1,731	1,509	1,994	2,086	1,924	1,972	2,166	
	Software	13	620	813	1,172	1,341	1,381	1,262	1,274	1,224	
	Media	3	364	154	-2	321	327	259	236	263	
	Telecommunications	11	4,769	2,761	8,419	4,543	2,112	4,442	4,240	4,718	
	Construction, engineering	5	696	734	636	493	501	482	456	480	
	Housing, real estate	18	2,055	2,165	1,878	2,442	2,509	2,587	2,578	2,723	
	Transportation	20	2,474	2,170	-1,573	1,131	1,446	3,227	3,325	3,410	
	Utilities	8	992	1,167	965	221	375	834	403	1,036	
Financials	22	6,366	5,785	5,583	7,130	7,328	7,229	7,263	7,760		

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY21 differs from index composition from FY22 onwards. Accordingly, prior-year comparison base for y-y changes has altered, thereby resulting in different y-y figures than before. Latest estimates as of 1 June 2022, previous estimates as of 2 March 2022.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY21 Q1–FY21 Q4)

		%y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	146.9	47.8	10.4	-14.5	159.6	50.8	17.7	-21.6
	Russell/Nomura Large Cap (ex financials)	25.4	11.0	11.5	10.9	221.6	49.4	22.1	33.3	182.6	45.1	8.6	-15.8	200.8	48.2	15.2	-21.8
	Manufacturing	35.6	11.2	9.6	10.4	382.6	55.9	13.9	18.1	302.9	64.3	16.8	10.1	591.9	72.1	15.8	3.7
	Basic materials	33.1	29.0	28.8	26.0	959.9	268.2	75.5	57.5	1,441.2	344.8	84.9	58.9	SP	2,028.7	83.9	74.7
	Processing	45.1	7.6	4.6	6.3	1,284.5	37.1	4.3	9.5	462.4	42.1	7.6	-0.2	810.4	31.9	6.8	-7.9
Broad sectors	Nonmanufacturing	-	-	-	-	-	-	-	-	78.4	33.3	4.4	-42.3	61.1	31.8	19.6	-55.6
	Nonmanufacturing (ex financials)	13.9	10.7	14.1	11.6	97.0	40.2	37.3	72.4	100.4	22.5	-1.3	-52.3	67.2	19.2	14.3	-65.9
	Basic materials	33.1	29.0	28.8	26.0	959.9	268.2	75.5	57.5	1,441.2	344.8	84.9	58.9	SP	2,028.7	83.9	74.7
	Machinery, autos	59.7	5.6	1.2	6.2	SP	32.2	-7.9	-7.0	SP	30.5	-0.8	-12.5	SP	34.5	-7.2	-24.3
	Electronics	26.9	10.6	10.1	6.4	142.9	43.1	21.7	32.6	61.6	58.8	20.7	19.8	74.4	29.2	28.1	18.2
Sectors	Consumption, distribution	18.8	13.5	16.2	15.3	89.1	41.0	22.7	54.1	102.7	51.5	26.2	55.6	132.9	75.1	35.6	81.6
	Information	9.2	5.4	4.2	-1.2	4.5	17.8	21.9	7.1	27.9	-37.2	-49.1	SL	-19.0	-66.5	-45.2	SL
	Utilities, infrastructure	3.5	3.3	9.1	7.9	1,040.3	32.6	39.4	144.0	1,625.9	58.7	60.2	363.8	SP	102.7	94.3	SP
	Financials	-	-	-	-	-	-	-	-	38.8	65.0	23.1	-2.4	48.8	67.0	35.1	-20.0
	Chemicals	32.8	27.7	27.4	25.2	355.2	119.7	62.5	59.6	432.9	156.2	74.1	62.8	SP	225.4	79.6	100.4
Sectors	Steel, nonferrous metals	33.6	32.6	32.8	28.2	SP	SP	118.4	51.1	SP	SP	119.2	46.8	SP	SP	93.2	30.8
	Machinery	29.2	13.5	16.0	13.7	252.3	41.8	20.0	17.0	193.6	39.3	22.5	0.5	191.7	45.1	17.6	5.0
	Automobiles	71.1	3.4	-2.5	4.1	SP	28.8	-15.2	-15.7	SP	27.9	-6.4	-17.1	SP	31.3	-13.6	-32.6
	Electrical machinery, precision equipment	26.9	10.6	10.1	6.4	142.9	43.1	21.7	32.6	61.6	58.8	20.7	19.8	74.4	29.2	28.1	18.2
	Pharmaceuticals, healthcare	10.1	7.4	6.6	10.9	30.1	35.8	-5.6	-12.8	33.1	43.0	-7.2	-26.1	34.5	64.9	-6.5	-41.5
	Food products	7.6	0.5	3.9	-0.6	25.6	1.9	-15.9	-9.0	30.7	6.5	-14.8	-10.2	27.1	16.9	-5.1	-3.5
	Household goods	20.1	5.0	7.4	7.4	95.4	-0.2	-10.3	48.5	132.8	1.2	-6.9	46.6	258.9	33.5	-4.2	118.3
	Trading companies	36.4	27.4	32.7	26.0	246.3	171.9	173.3	244.4	240.5	189.4	160.4	267.2	292.4	206.0	183.1	286.1
	Retailing	9.1	9.9	16.4	18.7	84.1	-10.1	-4.1	23.0	97.9	-7.7	-0.2	20.8	429.1	21.4	9.4	47.8
	Services	8.8	5.3	-0.8	0.8	143.6	45.3	-6.2	17.2	145.9	46.5	-4.7	19.7	207.3	52.5	8.0	284.7
	Software	5.9	-4.1	6.2	3.9	7.2	-3.6	10.2	16.2	11.2	2.2	17.6	22.6	14.2	17.0	23.1	10.7
	Media	24.6	33.4	12.2	-41.5	978.0	SP	SP	27.1	886.0	128,821.2	SP	47.8	SP	SP	SP	154.1
	Telecommunications	8.8	5.5	3.2	4.3	-4.8	5.2	0.3	-1.3	27.2	-55.4	-63.7	SL	-25.4	-87.2	-63.7	SL
	Construction, engineering	4.7	3.1	6.0	8.1	-33.1	-39.4	-16.5	-25.5	-29.4	-36.0	-9.7	-20.1	-29.4	-32.7	-10.1	-22.0
	Housing, real estate	11.3	8.3	4.3	10.9	41.6	26.7	3.2	24.8	40.0	31.6	2.0	34.2	54.4	32.5	-9.2	30.9
	Transportation	19.8	12.9	16.2	14.8	LS	LS	SP	LS	SP	SP	1,551.6	SP	SP	SP	SP	SP
	Utilities	-17.3	-9.5	8.7	0.4	-46.0	-33.9	SL	SL	-32.9	-46.5	SL	LS	-36.0	-37.8	SL	LS
	Financials	-	-	-	-	-	-	-	-	38.8	65.0	23.1	-2.4	48.8	67.0	35.1	-20.0

Note: (1) Q1 = Feb–Apr, Mar–May, or Apr–Jun; Q2 = May–Jul, Jun–Aug, or Jul–Sep; Q3 = Aug–Oct, Sep–Nov, or Oct–Dec; Q4 = Nov–Jan, Dec–Feb, or Jan–Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 1 June 2022. (3) Excludes listed consolidated subsidiaries. (4) SP = switch to profits; SL = switch to losses; LS = losses shrinking; LI = losses increasing.

Source: Nomura

Fig. 10: Valuation indicators

		P/E			P/CF			P/B		Dividend yield			ROE		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	15.3	13.7	12.8	-	-	-	1.36	1.29	2.25	2.47	2.63	9.3	9.7	9.8
	Russell/Nomura Large Cap (ex loss-making cos)	14.1	13.4	12.7	-	-	-	1.44	1.30	2.22	2.47	2.65	10.7	9.9	9.8
	Russell/Nomura Large Cap (ex financials)	16.4	14.3	13.4	8.7	8.3	7.9	1.52	1.45	2.10	2.30	2.44	9.8	10.4	10.4
	Manufacturing	15.9	15.4	14.1	8.8	9.2	8.6	1.61	1.54	1.98	2.24	2.44	10.8	10.3	10.6
	Basic materials	8.3	9.7	9.3	4.8	5.1	4.9	1.02	0.97	3.21	3.29	3.45	13.3	10.4	10.0
	Processing	16.4	15.3	13.8	8.9	9.5	8.8	1.63	1.55	1.71	2.04	2.30	10.6	10.4	10.8
	Nonmanufacturing	14.6	11.9	11.5	-	-	-	1.13	1.06	2.61	2.77	2.88	8.0	9.2	9.0
Broad sectors	Nonmanufacturing (ex financials)	17.2	12.8	12.4	8.5	7.2	7.0	1.40	1.31	2.29	2.40	2.43	8.4	10.6	10.1
	Basic materials	8.3	9.7	9.3	4.8	5.1	4.9	1.02	0.97	3.21	3.29	3.45	13.3	10.4	10.0
	Machinery, autos	14.2	13.4	11.7	7.4	8.4	7.6	1.28	1.22	2.05	2.46	2.75	9.6	9.3	10.1
	Electronics	19.2	17.8	16.7	11.0	10.8	10.2	2.21	2.06	1.39	1.64	1.86	12.3	12.0	11.8
	Consumption, distribution	16.8	15.9	16.0	10.3	9.9	9.9	1.73	1.64	2.05	2.22	2.29	10.8	10.7	9.9
	Information	45.0	17.6	16.2	12.6	8.7	8.4	1.97	1.83	2.23	2.17	2.22	4.5	10.7	11.0
	Utilities, infrastructure	14.4	9.7	8.9	6.4	5.2	4.9	1.01	0.94	2.79	3.05	3.02	7.3	10.1	10.2
Sectors	Financials	8.9	9.3	8.7	-	-	-	0.63	0.60	3.92	4.30	4.74	7.1	6.6	6.8
	Chemicals	9.9	10.4	10.0	5.6	5.5	5.4	1.14	1.09	2.70	3.05	3.20	12.5	10.8	10.5
	Steel, nonferrous metals	4.7	7.1	6.8	2.8	3.5	3.4	0.67	0.62	5.79	4.59	4.73	15.7	9.0	8.8
	Machinery	20.2	17.9	16.5	12.5	11.2	10.6	1.74	1.69	1.68	1.96	2.13	9.2	9.6	9.9
	Automobiles	12.2	11.8	10.1	6.0	7.4	6.6	1.11	1.07	2.25	2.73	3.09	9.7	9.2	10.2
	Electrical machinery, precision equipment	19.2	17.8	16.7	11.0	10.8	10.2	2.21	2.06	1.39	1.64	1.86	12.3	12.0	11.8
	Pharmaceuticals, healthcare	28.3	23.1	21.7	15.9	14.1	13.5	2.18	2.25	2.00	2.14	2.22	8.1	9.9	10.1
	Food products	18.7	17.8	16.9	10.3	10.5	10.1	1.69	1.71	2.69	3.01	3.11	9.4	9.8	9.9
	Household goods	27.8	27.7	21.9	17.3	16.8	14.3	3.09	2.93	1.55	1.75	1.83	11.6	10.8	12.9
	Trading companies	6.7	6.4	7.4	4.6	4.4	4.9	1.05	0.94	3.41	3.83	3.88	17.4	15.6	12.1
	Retailing	23.9	22.6	20.9	11.6	10.8	10.2	2.27	2.28	1.43	1.45	1.51	10.0	10.5	10.5
	Services	21.7	25.5	23.3	14.1	15.6	14.7	1.53	1.40	1.25	1.28	1.33	6.9	5.8	5.9
	Software	20.6	21.7	23.2	17.7	18.6	19.6	3.97	3.77	2.75	2.25	2.10	20.2	17.9	15.6
	Media	14.3	18.7	17.1	9.6	11.4	10.8	1.72	1.63	1.91	2.09	2.09	12.6	9.0	9.2
	Telecommunications	181.8	16.1	14.1	11.2	6.9	6.5	1.58	1.48	1.99	2.13	2.29	0.9	9.5	10.2
	Construction	11.2	9.8	9.3	8.8	7.9	7.5	0.83	0.78	3.26	3.89	4.27	7.5	8.0	8.3
	Housing, real estate	12.0	11.0	10.4	8.3	7.7	7.3	1.15	1.06	2.70	2.97	3.21	10.0	9.9	9.8
	Transportation	15.1	7.7	8.1	6.5	4.6	4.7	1.24	1.10	2.71	2.97	2.66	8.6	15.1	13.0
	Utilities	32.7	21.7	8.1	3.4	3.2	2.5	0.54	0.54	3.00	3.13	3.13	1.7	2.5	6.5
	Financials	8.9	9.3	8.7	-	-	-	0.63	0.60	3.92	4.30	4.74	7.1	6.6	6.8
Russell/Nomura Small Cap		12.7	13.1	12.3	-	-	-	0.93	0.92	2.37	2.48	2.53	7.6	7.2	7.3
Russell/Nomura Small Cap (ex financials)		13.3	13.8	12.9	7.2	7.3	7.0	1.06	1.03	2.27	2.40	2.45	8.3	7.6	7.8

Note: As of 1 June 2022.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by FTSE Russell Indexes and the Global Research Division, Financial Engineering & Technology Research Center, Nomura Securities Co., Ltd.

Russell/Nomura Japan Equity Indexes should be useful in:

- Determining investment strategies (strategic asset allocation)
- Determining manager structures
- Devising asset management benchmarks
- Supporting portfolio management activities
- Evaluating the performance of various investment styles
- Managing risk

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are share price indexes that are weighted by free-float-adjusted market capitalization and cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage
- Stocks are chosen from the whole Japanese stock market
- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria
- The composition of each index is reviewed once a year.

Complete details of rules for the Russell/Nomura Japan Equity Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

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As at 31 March 2022.

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STOCKS

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When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For JI17 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.5% (tax included) of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.5% (tax included/annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry

the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions (“interest rate swap transactions, etc.”), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

Nomura Securities Co., Ltd.

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